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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2018/2019

BBF2124 – FINANCIAL MANAGEMENT II

(All sections / Groups)

18th OCTOBER 2018
9:00 a.m – 11:00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 2 pages with 4 Questions only.
2. Attempt **ALL** questions. Distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

Industronics Berhad is evaluating two different operating structures which are described below. The firm has annual interest expense of \$250, common shares outstanding of 1,000, and a tax rate of 40 percent.

Operating Structure	Fixed Cost	Price/Unit	Variable Cost / Unit
#1	\$500	\$1	\$0.75
#2	\$1,200	\$1	\$0.70

a) For each operating structure, calculate

- i) EBIT and EPS at 10,000, 20,000, and 30,000 units of sales. (12 marks)
- ii) the degree of operating leverage (DOL) and degree of total leverage (DTL) using 20,000 units as a base sales level. (4 marks)
- iii) the operating breakeven point in units. (2 marks)

b) Which operating structure has greater operating leverage and business risk? (2 marks)

c) If Industronics Berhad projected sales to be at 20,000 units, which operating structure is recommended? (2 marks)

d) Distinguish between the term "business risk" and "financial risk". (3 marks)

(Total: 25 marks)

QUESTION 2

Globetronics Medical Technology Sdn. Bhd. has a 12.5% cost of capital must select the optimal group of projects from those shown in the following table, given limited budget of RM1,000,000.00.

Project	Initial Investment - RM	Net Present Value (NPV) -RM
A	300 000	75 000
B	200 000	12 000
C	100 000	35 000
D	900 000	90 000
E	500 000	50 000
F	100 000	50 000
G	800 000	150 000

Continued...

- a) Calculate the present value of future cash inflows associated with each project. (7 marks)
- b) Which optimal group of projects should be funded? High costs will be incurred for any unused funds by the company. (3 marks)
- c) If Internal Rate of Return (IRR) for each project is given, kindly discuss your approach in selecting the group pf project. (5 marks)
- d) Would your answer discuss in part (c) be different than your answer in part (b)? (5 marks)
- e) Should all the projects have same level of risk, does selecting those projects will change the company overall risk. Discuss. (5 marks)

(Total: 25 marks)

QUESTION 3

- a) You have been appointed as a Chief Transformation Officer of Censof Holdings Berhad and the management would like to enhance the overall performances of the company through a merger activity. Briefly discuss **FOUR** (4) types of merger and **FOUR** (4) benefits of merger (15 marks)
- b) There are unique factors in the international setting that tend to complicate the financial operations of multinational companies (MNCs). Discuss the influence of international factors on MNCs' operations. (10 marks)

(Total: 25 marks)

QUESTION 4

- a) Discuss **FIVE** (5) characteristics of options and discuss the role of options in hedging activities by company. (10 marks)
- b) Describe **TWO** (2) characteristics of stock purchase warrants. Explain the implied price of an attached warrant and the values of warrants. (15 marks)

(Total: 25 marks)

End of Paper